MANITOBA FORESTRY RESOURCES LTD.

ANNUAL REPORT

For The Year Ended September 30, 1982

MANITOBA FORESTRY RESOURCES LTD.

REPORT BY THE CHAIRMAN OF THE BOARD

Market conditions during the year under review worsened considerably over the previous year. The adverse affect of a sluggish world-wide economy on our pulp and paper operations was further compounded by devaluation in the currency of our main competitor in the offshore market. In the lumber market, demand continued to be soft and lumber prices fell for the third consecutive year from their high point in 1979. This is due almost entirely to housing starts in the U.S. continuing at less than one-half of their traditional levels. For both pulp and paper and lumber operations the net effect is underutilization of productive capacity and resources, leading to suboptimal operating efficiency and consequently unprofitable operations.

Lumber Market

Lumber prices were held down by low demand and high availability. In only one month was the selling price of lumber higher in the year under review than it was in the preceding year. For the remaining eleven months selling prices were substantially lower, with the result that in the fiscal year ended September 30, 1982 the average net selling price of lumber was 12 per cent lower than it was in the preceding year. As mentioned earlier, this is the third consecutive year that the selling price of

lumber has dropped; the average selling price in fiscal 1982 was 29 per cent lower than the average price in 1979.

Lumber Operations

The low demand, oversupplied market situation experienced during the year under review dictated a cut-back in lumber production. Initially, the company attempted to match production to demand by taking a four week shut-down during February, followed by two months of production at 80 per cent of capacity. During this two month period the company entered into a Work Sharing Agreement arranged with the two levels of government to minimize the effect of lost wages on its employees. At the end of the two month period the market had not improved sufficiently to justify even 80 per cent capacity production and the company cut production to one shift per day. It did so reluctantly, since this necessitated that 88 employees be laid off indefinitely. Production for the reporting year wound up being 32 per cent lower than it was in the preceding year.

Pulp and Paper Market

Although demand for pulp and paper was soft throughout the reporting year, the selling price was reasonably firm until the year's mid-point. At that point the average selling price was 9 per cent above the preceding year's level, but because of soft demand sales volume was 20 per cent below the preceding year's volume. For the balance of fiscal 1982 the average selling price for pulp and paper was lower than it was in the preceding year, so that by year end, the 1982 price was only 2 per cent higher than the 1981 average selling price for pulp

and paper. Sales volume for the reporting year was 21 per cent below the volume sold in the preceding year.

Pulp and Paper Operations

Until the mid-point of fiscal 1982 pulp and paper production continued at capacity levels. However, because production volume was exceeding sales volume the normal five day maintenance shut-down in May was extended to twenty-two days. The usual practice of minimizing maintenance down-time by supplementing company personnel with contract personnel to perform maintenance work was not followed, in order to keep employee lay-offs to a minimum. A further suspension of production took place in August, for a duration of twenty-two days. For the reporting year, production was sixteen per cent lower than in the preceding year, when the mill produced to capacity.

Overall Effect on Company Earnings

The conditions referred to in the preceding paragraphs translated directly to our profit and loss statement for the year under review. The figures for the year ended September 30, 1982 (preceding year in brackets) were: sales $62,713,000 ($78,556,000); operating loss before interest, depreciation and minor items was $3,909,000 (profit of $7,242,000); loss for the year after interest and depreciation $13,818,000 (loss of $1,605,000).

Current Year

Lumber - Market conditions improved with selling prices during the current year at a level of 24 per cent higher than the same period last year. This is still below the costs of production, however, production is being maintained at 60 per cent of normal. The outlook for the balance of the year is for continued improvement if interest rates continue to moderate thereby generating a continued increase in the number of housing starts in Canada and the U.S.A.

Pulp and Paper - Demand for the year-to-date has continued at approximately 80 per cent of capacity. This has translated into a decrease in selling prices of 10.2 per cent for paper and 29.4 per cent for pulp. In addition, production was curtailed with 27 days of down-time being taken. Current market projections for the balance of the current year are that demand will improve sufficient to reduce the necessity for downtime, but not sufficient to see any material improvement in selling prices.

Financial - For the year-to-date (comparable period of the preceding year in brackets) we have a cash loss, before interest and depreciation, of $3,687,000 ($2,804,000); after depreciation and interest our loss is $7,781,000 ($746,000). Current projections for the year are for an operating loss of $10,000,000 ($3,909,000) and, after depreciation and interest, a total loss of $20,000,000 ($13,818,000).

In order to maintain our position in the market place and improve our commercial viability, we need to update our physical facilities to take advantage of the latest technological advances in production equipment. This is particularly true in the case of the sawmill where the production equipment is physically worn out. To this end, we are currently engaged in technological and other organization studies in order to develop a long term strategy which will provide stable employment for our work force and a reasonable rate of return for our shareholders.

M.O. Harvey,
Chairman of the Board.

MANITOBA

PROVINCE OF MANITOBA
PROVINCIAL AUDITOR

MANITOBA FORESTRY RESOURCES LTD.

REPORT OF THE PROVINCIAL AUDITOR'S OFFICE

We have examined the balance sheet of Manitoba Forestry Resources Ltd. as at September 30, 1982 and the statements of capital deficit, operating deficit, operations and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at September 30, 1982 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in the method of valuing log inventories as explained in note 1 to the financial statements, on a basis consistent with that of the preceding year.

W. K. Ziprick, C.A.,
Provincial Auditor.

January 17, 1983,
Winnipeg, Manitoba.

MANITOBA FORESTRY RESOURCES LTD.

BALANCE SHEET
AS AT SEPTEMBER 30, 1982

ASSETS

	1982	1981
	(Thousands of Dollars)	
CURRENT		
Accounts receivable - note 2	$ 7,015	$ 8,822
Inventories - notes 1 and 4	23,418	20,603
Prepaid expenses	623	561
	31,056	29,986
LONG TERM RECEIVABLES - note 3	365	19
FIXED, notes 1 and 5		
Land, buildings, machinery, roads, logging facilities and equipment	102,583	99,366
Rental housing properties	1,844	1,845
	104,427	101,211
Less - accumulated depreciation	43,699	38,858
	60,728	62,353
DEFERRED CHARGES, note 1		
Start-up and development costs	11,381	11,381
Less - accumulated amortization	6,283	6,283
	5,098	5,098
	$ 97,247	$ 97,456

LIABILITIES

	1982	1981
	(Thousands of Dollars)	
CURRENT		
Bank indebtedness - note 6	$ 4,910	$ 3,095
Accounts payable and accrued liabilities	6,029	6,455
Current portion of mortgages payable	46	36
	10,985	9,586
LONG TERM DEBT, note 7		
Mortgages payable	1,243	1,300
Province of Manitoba	111,905	99,638
	113,148	100,938
	124,133	110,524

SHARE CAPITAL AND DEFICIT

SHARE CAPITAL, note 8		
Common		
Issued - 20,000,000	20,000	20,000
Preferred, note 9		
Issued - 60,031,939	60,032	60,171
	80,032	80,171
CAPITAL DEFICIT, note 9	(51,271)	(51,410)
OPERATING DEFICIT	(55,647)	(41,829)
	(26,886)	(13,068)
	$ 97,247	$ 97,456

COMMITMENTS, note 10

Approved on behalf of the Board:

Director

Director

Statement 2

MANITOBA FORESTRY RESOURCES LTD.

STATEMENT OF CAPITAL DEFICIT
FOR THE YEAR ENDED SEPTEMBER 30, 1982

	1982	1981
	(Thousands of Dollars)	
BALANCE, BEGINNING OF YEAR	$ 51,410	$ 52,006
Recoveries from the Manitoba Development Corporation, notes 8 and 9	139	596
BALANCE, END OF YEAR	$ 51,271	$ 51,410

Statement 3

MANITOBA FORESTRY RESOURCES LTD.

STATEMENT OF OPERATING DEFICIT
FOR THE YEAR ENDED SEPTEMBER 30, 1982

	1982	1981
	(Thousands of Dollars)	
BALANCE, BEGINNING OF YEAR	$ 41,829	$ 40,224
Net loss for the year	13,818	Nil
BALANCE	55,647	40,224
Reverse 1981 amortization of start-up and development costs	-	(670)
Write down 1981 log inventories to net realizable value	-	2,275
BALANCE, END OF YEAR	$ 55,647	$ 41,829

Statement 4

MANITOBA FORESTRY RESOURCES LTD.

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 1982

	1982	1981
	(Thousands of Dollars)	
SALES		
Pulp and paper	$ 54,596	$ 67,251
Lumber	7,371	10,525
Other	746	780
	62,713	78,556
EXPENSES		
Cost of sales, before depreciation - Schedule 1	51,693	56,200
Selling expenses - Schedule 2	7,522	8,726
General and administrative - Schedule 3	7,407	6,388
	66,622	71,314
OPERATING PROFIT (LOSS) BEFORE THE FOLLOWING	(3,909)	7,242
OTHER INCOME (EXPENSES)		
Interest	(4,971)	(3,475)
Depreciation, note 1	(5,205)	(5,413)
Gain on sale of fixed assets	129	41
Insurance proceeds - net	295	-
Sales Tax Assessment	(157)	-
	(9,909)	(8,847)
INCOME (LOSS) FOR THE YEAR	$(13,818)	$(1,605)

Statement 5

MANITOBA FORESTRY RESOURCES LTD.

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 1982

	1982	1981
	(Thousands of Dollars)	
SOURCE OF FUNDS		
Provided from operations	$ -	$ 3,763
Proceeds on sale of fixed assets	440	146
Decrease in mortgage receivable	1	-
Proceeds from government grant	-	26
Recoveries from the Manitoba Development Corporation	139	596
Decrease in notes receivable	9	-
	589	4,531
PROVINCE OF MANITOBA		
- Advances	10,567	-
- Income debentures issued	1,700	-
	12,267	-
	12,856	4,531
APPLICATION OF FUNDS		
Applied to operations	8,742	-
Additions to fixed assets	3,891	2,786
Decrease in mortgages payable	57	32
Redemption of preferred shares	139	596
Investment in notes receivable	356	-
	13,185	3,414
INCREASE (DECREASE) IN WORKING CAPITAL	(329)	1,117
Working capital, beginning of year	20,400	19,283
WORKING CAPITAL, END OF YEAR	$ 20,071	$ 20,400
Represented by		
Current assets	31,056	29,986
Current liabilities	10,985	9,586
	$ 20,071	$ 20,400

MANITOBA FORESTRY RESOURCES LTD.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 1982

1. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies of the company.

(a) Inventories

During the year under review the method of valuing log inventories was changed from "lower of cost and replacement cost" to "lower of cost and net realizable value". This change was applied retroactively to the year ended September 30, 1981 and the comparative 1981 figures have been restated to provide proper comparisons.

Inventories are valued using the following methods:

Log inventories - lower of cost and net realizable value
Work in process (pulp chips, pulp and lumber) - lower of cost and net realizable value
Finished goods (pulp, paper and lumber) - lower of cost and net realizable value
Mill stores, chemicals, fuel and other supplies - lower of cost and replacement cost

For all inventories, cost is generally determined on an average cost basis.

(b) Depreciation

Depreciation is being applied on the following basis:

Fixed assets, except those pertaining to the Woodlands and Real Estate Divisions, are depreciated on a straight-line pooled basis over twenty years. The cost of fixed assets removed less recovery from disposal proceeds is charged to accumulated depreciation. Gains and losses incurred on the disposal of fixed assets pertaining to the Woodlands and Real Estate Divisions are credited or charged to operations.

Woodlands Division:	
Camp buildings	- straight-line over ten years.
Logging equipment	- hours used related to estimated total useable hours.
Roads and railspurs	- timber delivered to the millsite related to estimated total yield of area serviced.
Other equipment	- straight-line over three to twenty years.
Real Estate Division:	
Rental housing properties	- straight-line over forty years.

MANITOBA FORESTRY RESOURCES LTD.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 1982

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(c) Deferred Charges

Deferred charges consist of start-up and development costs of $11,381,000, being net expenditures by the Receiver on operations during receivership exclusive of depreciation charges and interest charges by the Manitoba Development Corporation. The company established a policy of amortizing the deferred charges to the extent of income available in each year.

(d) Foreign Exchange

Current assets and liabilities of the company expressed in United States dollars are translated into Canadian dollars at the rates of exchange on the balance sheet date. The resulting net gain or loss is reflected in operations.

2. ACCOUNTS RECEIVABLE

	1982	1981
	(Thousands of Dollars)	
Trade	$5,980	$8,197
Due from Receiver	117	117
Other	918	508
	$7,015	$8,822

3. LONG TERM RECEIVABLES

During the year under review, camp facilities at Talbot Lake were sold to Moose Lake Loggers Ltd. Repayment of the note is based on production purchased from Moose Lake Loggers Ltd. with interest based on floating current rates.

MANITOBA FORESTRY RESOURCES LTD.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 1982

4. INVENTORIES

	1982	1981
	(Thousands of Dollars)	
Inventories consist of the following:		
Production raw materials -		
Log inventories - at cost	$ 10,734	$ 10,021
Less adjustment to net realizable value	1,990	2,275
	8,744	7,746
Work in process and finished goods -		
Work in process -		
Pulp chips	2,073	2,142
Pulp	43	37
Lumber	363	152
Other	32	30
	2,511	2,361
Finished goods -		
Pulp and paper	4,860	1,820
Lumber	794	1,486
	5,654	3,306
	8,165	5,667
	16,909	13,413
Other -		
Mill stores*	5,246	6,173
Chemicals and fuel	754	590
Other supplies	509	427
	6,509	7,190
	$ 23,418	$ 20,603

*During the year under review some mill stores items were determined to be of a long term capital nature and as a result $978,308 was transferred from mill stores to fixed assets at September 30, 1982.

5. FIXED ASSETS

Land, buildings, machinery, roads, logging facilities and equipment, except the machinery plant, were valued on the basis of inventoried expenditures to the date of receivership, January 7, 1971, amounting to $64,753,000, including a reasonable assessment for engineering and supervision fees and interest charges. The Engineering Division fixed assets were valued at $500,000 on the basis of an estimated useful value to the integrated operations at January 7, 1971. Subsequent fixed asset additions and construction in progress as at September 30, 1982 have been recorded at cost. The company has deducted government grants received from the cost of fixed assets acquired. These grants aggregated $12,157,000 as at September 30, 1982.

MANITOBA FORESTRY RESOURCES LTD.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 1982

6. BANK INDEBTEDNESS

	1982	1981
	(Thousands of Dollars)	
Bank loan	$ 4,500	$ 1,000
Bank overdraft	410	2,095
	$ 4,910	$ 3,095

The company's bank indebtedness is secured by inventories and a general assignment of accounts receivable and an assignment of fire insurance proceeds.

7. LONG TERM DEBT

	1982	1981
	(Thousands of Dollars)	
Mortgages payable on rental properties with interest rates from 6% to 10½% maturing 1983 to 2006	$ 1,289	$ 1,336
Less - current portion	46	36
	1,243	1,300
Province of Manitoba		
7% first mortgage debenture maturing in 1998	45,000	45,000
9% non-cumulative income debenture maturing in 1998	28,000	28,000
9% non-cumulative income debenture maturing in 2003	23,488	23,488
9% non-cumulative income debenture maturing in 2004	3,150	3,150
9% non-cumulative income debenture maturing in 2007	1,700	-
	101,338	99,638
Advances	10,567	-
	111,905	99,638
	$113,148	$100,938

Net income available for payment of interest on income debentures is determined after provision has been made for depreciation, the amortization of start-up and development costs, mortgage interest costs and interest on all other advances. The payment of income debenture interest is to be made in the order of debenture maturity dates.

The 7% first mortgage and the 9% income debentures are secured by a floating charge on all assets of the company.

MANITOBA FORESTRY RESOURCES LTD.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 1982

8. SHARE CAPITAL

The authorized share capital of the company is comprised of the following:

Common shares
25,000,000 shares with an aggregate consideration not to exceed $25,000,000

Preferred shares
85,000,000 non-participating, non-voting preferred shares, carrying a non-cumulative dividend entitlement of $.07 per share, redeemable at $1 per share. The aggregate consideration is not to exceed $85,000,000.

The company is wholly-owned by the Province of Manitoba and is incorporated under the authority of The Manitoba Natural Resources Development Act.

9. PREFERRED SHARES AND CAPITAL DEFICIT

Capital deficit consists of the expenditures made by the Manitoba Development Corporation in excess of the inventoried net value of the assets established at the date of receivership, January 7, 1971.

Adjustments to the capital deficit and the preferred shares are made under an agreement between the Province of Manitoba, the Manitoba Development Corporation and the company, requiring the Manitoba Development Corporation to carry out the necessary remaining actions with regard to the receivership and pay the necessary charges and make appropriate recoveries. The Province of Manitoba is to reimburse the Manitoba Development Corporation for payments made and to receive from the Corporation any recoveries realized. The company is to reflect the net payments or recoveries by the Province of Manitoba through an issue or cancellation of its preferred shares and an adjustment of capital deficit.

The net recoveries for the year ended September 30, 1982 under the aforementioned terms amounted to $139,484. The company redeemed preferred shares held by Province of Manitoba for this amount during the year.

MANITOBA FORESTRY RESOURCES LTD.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 1982

10. COMMITMENTS

Estimated expenditures to complete the construction in progress and commitments to purchase equipment amounted to approximately $1,755,000 as at September 30, 1982 (1981 - $1,599,000).

11. CHANGE OF AUDITORS

The accounts for the year ended September 30, 1981 were examined and reported on by Dunwoody & Company, Chartered Accountants.

Schedule 1

MANITOBA FORESTRY RESOURCES LTD.

COST OF SALES
FOR THE YEAR ENDED SEPTEMBER 30, 1982

	1982	1981
	(Thousands of Dollars)	
Log inventories, work in process and finished goods at beginning of year, note 4	$13,413	$ 8,945
Production costs -		
Chemicals and fuel	8,821	7,747
Contract and purchased logs	7,682	10,870
Employee benefits	3,736	3,788
Log delivery expense	6,876	9,341
Maintenance supplies and expenses	6,080	6,039
Operating supplies and expenses	5,489	5,073
Salaries and wages	16,069	17,205
Other	436	605
	55,189	60,668
Log inventories, work in process and finished goods at end of year, note 4	(16,909)	(13,413)
	38,280	47,255
	$51,693	$56,200

Schedule 2

MANITOBA FORESTRY RESOURCES LTD.

SELLING EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 1982

	1982	1981
	(Thousands of Dollars)	
Commissions	$ 252	$ 393
Discounts	380	531
Duty, brokerage and taxes	162	330
Freight and storage	6,407	7,204
Other	138	80
Salaries and employee benefits	183	188
	$7,522	$8,726

Schedule 3

MANITOBA FORESTRY RESOURCES LTD.

GENERAL AND ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 1982

	1982	1981
	(Thousands of Dollars)	
Communications	$ 184	$ 166
Insurance	569	518
Office supplies and expenses	453	298
Other	536	359
Professional fees	303	253
Property, business, capital, and payroll taxes	1,352	1,197
Salaries, wages and employee benefits	3,888	3,480
Staff recruiting and relocation	122	117
	$7,407	$6,388